

Village of Rothbury
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2008

Village of Rothbury
LIST OF ELECTED OFFICIALS
March 31, 2008

Village President..... Robert Walker

Village Clerk.....Carol Witzke

Village TreasurerAnna Prieze

Village Council John Anderson
Robert Fulljames
Mike Harris
Leatrice Machovsky
Deborah Murphy
Gail Zemmol

Village of Rothbury

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As management of the Village of Rothbury, we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village for the fiscal year ended March 31, 2008. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the Village had total assets of \$706,520 and total liabilities of \$12,000 leaving net assets of \$694,520, an increase of 1.7% in the Village's overall net assets from the prior year.
- The General Fund fund balance increased \$3,203.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Village's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development, and cultural and recreational activities. The Village does not currently have any business-type activities.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village are governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the two.

The Village maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets Fund, and Local Streets Fund, which are considered to be major funds.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund, Major Streets Fund, and Local Streets Fund.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide Statement of Net Assets for the Village. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2008, the Village's net assets from governmental activities totaled \$694,520.

The decrease in current assets reflects additional funds spent on infrastructure and capital assets. Correspondingly, capital assets increased and net assets restricted for streets decreased.

In examining the composition of these net assets, the reader should note that a portion of governmental activities net assets are invested in capital assets (i.e., infrastructure, buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental activities actually depict a balance of \$90,330. This represents the amount of discretionary resources that can be used for general governmental operations.

Net Assets

	Governmental Activities	
	2008	2007
Current assets	\$ 341,402	\$ 372,165
Capital assets	365,118	328,294
Total assets	706,520	700,459
Current liabilities	12,000	18,082
Net assets		
Invested in capital assets	365,118	328,294
Restricted	239,072	266,956
Unrestricted	90,330	87,127
Total net assets	\$ 694,520	\$ 682,377

Governmental Activities

Governmental activities net assets increased by \$12,143 (1.7%) during the 2008 fiscal year. Revenues were very comparable to the previous year. General government expenses decreased due to lower professional service expenses and lower buildings and grounds expenses as the Village had performed some tree removal around the Village hall in the previous year. Public safety expenses increased as the police department was fully staffed for most of the year. Public works expenses decreased because the Village chip sealed several of its streets in the prior year. The following table depicts these occurrences.

Change in Net Assets

	Governmental Activities	
	2008	2007
Revenues:		
Program revenues		
Charges for services	\$ 36,295	\$ 35,931
Operating grants	54,716	54,634
General revenues		
Property taxes	88,839	88,120
Franchise fees	1,112	1,084
Grants and contributions not restricted	32,194	32,114
Unrestricted investment earning	2,736	2,604
Miscellaneous	794	1,273
Total revenues	216,686	215,760
Expenses:		
General government	68,064	77,819
Public safety	55,183	46,049
Public works	59,964	125,832
Community and economic development	2,661	872
Culture and recreation	18,671	16,081
Total expenses	204,543	266,653
Change in net assets	12,143	(50,893)
Net assets - Beginning	682,377	733,270
Net assets - Ending	\$ 694,520	\$ 682,377

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2008 fiscal year, the Village's governmental funds reported a combined unreserved fund balance of \$329,402. This number represents the unreserved fund balance of \$90,330 in the General Fund, \$74,885 in the Major Streets Fund, and \$164,187 in the Local Streets Fund.

The fund balance in the General Fund increased by \$3,203 as the Village's revenues were comparable to the prior year and expenditures decreased due to fewer capital expenditures. The fund balance in the Major Streets decreased by \$42,316 as the Village installed new sidewalk and created a pocket park. The fund balance in the Local Streets Fund increased by \$14,432 as there were no major projects this year. The changes in fund balances in the Major Streets and Local Streets funds were also affected by a transfer of \$14,506 from the Major Streets Fund to the Local Streets Fund as allowed by Act 51.

General Fund Budget

During the current fiscal year, the Village only made one minor amendment to its original budget which did not change total expenditures.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- Village Council expenditures were under budget by \$18,296 because of lower than expected professional fees and community promotion.
- Village hall expenditures were under budget by \$15,349 because repairs and maintenance and capital expenditures were lower than anticipated.
- The unallocated expenditures budget is unspent contingency.
- Police expenditures were under budget by \$9,261 because of lower than anticipated wages and capital expenditures.
- Rothbury Community Center expenditures were under budget by \$16,417 because of lower than expected capital expenditures.

Capital Assets

The Village investment in capital assets for its governmental activities as of March 31, 2008 totaled \$365,118 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, and furniture and equipment.

The only significant capital asset additions during the current year were the installation of new sidewalk, the creation of a pocket park, a new fishing pier, and some small equipment purchases.

**Capital Assets
(Net of Accumulated Depreciation)**

	Governmental Activities	
	2008	2007
Land	\$ 39,701	\$ 39,701
Land improvements	25,131	1,723
Buildings and improvements	154,681	158,241
Furniture and equipment	23,810	25,148
Vehicles	21,978	28,176
Infrastructure	99,817	75,305
Total	<u>\$ 365,118</u>	<u>\$ 328,294</u>

Additional information on the Village's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

General Economic Overview

The Village's General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised 75% of the General Fund's revenue sources. In fiscal 2009, the Village expects both property taxes and state shared revenue to remain approximately the same.

The Village expects General Fund operating expenditures in fiscal 2009 to be approximately the same as fiscal 2008 except for police expenditures which are expected to rise by approximately \$10,000 due to the new ROTHBURY Music Festival. This increase in expenditures will be offset by a permit fee for the Festival. Also, Rothbury Community Center expenditures are expected to be approximately \$9,000 higher due to needed maintenance and repairs. The only significant capital outlay for which the Council has budgeted is \$15,000 for a new leaf vacuum and \$18,000 for a new police car. The police car will be partially funded with a \$10,000 USDA grant. A few smaller capital purchases are planned as well.

In the Major Streets and Local Streets funds, the Village intends to continue its street preservation and improvement projects in fiscal 2009. The Village also intends to spend \$24,475 for sidewalk improvements and \$8,000 for a new pocket park.

Requests for Information

This financial report is designed to provide a general overview of the Village of Rothbury's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Rothbury, 7804 S. Michigan Avenue, Rothbury, Michigan 49452 (231) 894-2385.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

July 10, 2008

To the Village Council
Village of Rothbury
Rothbury, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Rothbury as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Rothbury's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Rothbury, as of March 31, 2008 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - vi and 17 - 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Village of Rothbury
STATEMENT OF NET ASSETS
 March 31, 2008

ASSETS

	<u>Governmental activities</u>
CURRENT ASSETS	
Cash and investments	\$ 323,907
Receivables	5,077
Due from other governmental units	<u>12,418</u>
Total current assets	341,402
 NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	39,701
Depreciable	<u>325,417</u>
Total noncurrent assets	<u>365,118</u>
Total assets	706,520
 LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	10,150
Deferred revenue	<u>1,850</u>
Total current liabilities	<u>12,000</u>
 NET ASSETS	
Invested in capital assets	365,118
Restricted for streets	239,072
Unrestricted	<u>90,330</u>
Total net assets	<u><u>\$ 694,520</u></u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
STATEMENT OF ACTIVITIES
For the year ended March 31, 2008

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Governmental activities</u>
Governmental activities				
General government	\$ 68,064	\$ 16,720	\$ -	\$ (51,344)
Public safety	55,183	8,150	-	(47,033)
Public works	59,964	-	54,716	(5,248)
Community and economic development	2,661	-	-	(2,661)
Culture and recreation	18,671	11,425	-	(7,246)
Total governmental activities	<u>\$ 204,543</u>	<u>\$ 36,295</u>	<u>\$ 54,716</u>	(113,532)
General revenues				
Property taxes				88,839
Franchise fees				1,112
Grants and contributions not restricted to specific programs				32,194
Unrestricted investment earnings				2,736
Miscellaneous				794
Total general revenues				<u>125,675</u>
Change in net assets				12,143
Net assets at April 1, 2007				<u>682,377</u>
Net assets at March 31, 2008				<u>\$ 694,520</u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
BALANCE SHEET
Governmental Funds
March 31, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Total governmental funds
ASSETS				
Cash and investments	\$ 82,358	\$ 72,862	\$ 168,687	\$ 323,907
Receivables				
Accounts	1,778	-	-	1,778
Property taxes	3,299	-	-	3,299
Due from other governmental units	4,745	5,271	2,402	12,418
Total assets	<u>\$ 92,180</u>	<u>\$ 78,133</u>	<u>\$ 171,089</u>	<u>\$ 341,402</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ 3,248	\$ 6,902	\$ 10,150
Deferred revenue	1,850	-	-	1,850
Total liabilities	1,850	3,248	6,902	12,000
Fund balances				
Unreserved				
General Fund	90,330	-	-	90,330
Special revenue funds	-	74,885	164,187	239,072
Total fund balances	90,330	74,885	164,187	329,402
Total liabilities and fund balances	<u>\$ 92,180</u>	<u>\$ 78,133</u>	<u>\$ 171,089</u>	<u>\$ 341,402</u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
March 31, 2008

Total fund balances—governmental funds	\$	329,402
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$	769,760	
Accumulated depreciation		<u>(404,642)</u>	<u>365,118</u>

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>694,520</u></u>
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The accompanying notes are an integral part of this statement.

Village of Rothbury
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended March 31, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Total governmental funds
REVENUES				
Property taxes	\$ 88,839	\$ -	\$ -	\$ 88,839
Licenses and permits	3,637	-	-	3,637
Intergovernmental revenues - State	32,194	31,905	13,612	77,711
Charges for services	33,053	-	-	33,053
Fines and forfeitures	718	-	-	718
Investment earnings	2,736	3,400	5,799	11,935
Other	794	-	-	794
Total revenues	161,971	35,305	19,411	216,687
EXPENDITURES				
Current				
General government	67,806	-	-	67,806
Public safety	49,339	-	-	49,339
Public works	8,876	63,115	19,485	91,476
Community and economic development	2,661	-	-	2,661
Culture and recreation	30,086	-	-	30,086
Total expenditures	158,768	63,115	19,485	241,368
Excess of revenues over (under) expenditures	3,203	(27,810)	(74)	(24,681)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	14,506	14,506
Transfers out	-	(14,506)	-	(14,506)
Total other financing sources (uses)	-	(14,506)	14,506	-
Net change in fund balances	3,203	(42,316)	14,432	(24,681)
Fund balances at April 1, 2007	87,127	117,201	149,755	354,083
Fund balances at March 31, 2008	\$ 90,330	\$ 74,885	\$ 164,187	\$ 329,402

The accompanying notes are an integral part of this statement.

Village of Rothbury
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended March 31, 2008

Net change in fund balances—total governmental funds	\$ (24,681)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (28,270)	
Capital outlay	<u>65,094</u>	<u>36,824</u>
Change in net assets of governmental activities		<u>\$ 12,143</u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Rothbury (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Reporting Entity

The Village is a municipal corporation governed by an elected seven-member Village Council.

Generally accepted accounting principles require that if the Village has certain oversight responsibilities over other organizations, those organizations should be included in the Village's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Village. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Village has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund and Local Street Fund account for money distributed by the State of Michigan for street maintenance.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Village reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Village intends to hold the investment until maturity.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property taxes. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of September 14 are turned over by the Village to the County for collection. The County advances the Village all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 state taxable value for real/personal property of the Village totaled approximately \$11,764,000. The ad valorem taxes levied consisted of 6.7755 mills for the Village's operating purposes. These amounts are recognized in the General Fund.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

In the case of the initial capitalization of general infrastructure (i.e., those reported by governmental activities) the Village chose to include all such items regardless of their acquisition date or amount. The Village was able to estimate the historical cost of the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year).

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20-50
Furniture and equipment	5-20
Vehicles	8
Infrastructure	10-20

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. In March, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Not later than March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level. The Village Council made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Village's investment policy does not authorize it to invest in commercial paper or corporate bonds.

Concentration of credit risk. The Village does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Village investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Village does not have any investments exposed to concentration of credit risk.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2008, the Village's entire bank balance of \$336,464 was insured.

Custodial credit risk – investments. The Village does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have any investments exposed to custodial credit risk.

Foreign currency risk. The Village is not authorized to invest in investments which have this type of risk.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008 was as follows:

	Balance April 1, 2007	Additions	Deductions	Balance March 31, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 39,701	\$ -	\$ -	\$ 39,701
Capital assets, being depreciated:				
Land improvements	52,818	24,876	-	77,694
Buildings and improvements	333,439	2,193	-	335,632
Furniture and equipment	60,741	3,925	3,478	61,188
Vehicles	49,581	-	-	49,581
Infrastructure	171,864	34,100	-	205,964
Total capital assets, being depreciated	668,443	65,094	3,478	730,059
Less accumulated depreciation:				
Land improvements	51,095	1,468	-	52,563
Buildings and improvements	175,198	5,753	-	180,951
Furniture and equipment	35,593	5,263	3,478	37,378
Vehicles	21,405	6,198	-	27,603
Infrastructure	96,559	9,588	-	106,147
Total accumulated depreciation	379,850	28,270	3,478	404,642
Total capital assets, being depreciated, net	288,593	36,824	-	325,417
Capital assets, net	\$ 328,294	\$ 36,824	\$ -	\$ 365,118

Depreciation expense has been charged to functions as follows:

Government activities:	
General government	\$ 4,111
Public safety	6,962
Public works	12,145
Culture and recreation	5,052
	<u>\$ 28,270</u>

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE E—INTERFUND TRANSFERS

The Major Streets Fund transferred \$14,506 to the Local Streets Fund for road improvements.

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the General Fund reported \$1,850 in deferred revenue which was comprised of unearned deposits and rent for the Rothbury Community Center.

NOTE G—OTHER INFORMATION

Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The Village pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Commitment

The Village has a purchase agreement for a new police car as of March 31, 2008 for \$18,044. This purchase is being partially financed with a federal grant for \$10,000.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE H—PENSION PLANS

Defined Contribution Plan

The Village provides pension benefits for all of its employees and elected officials through a defined contribution plan maintained by Hartford Life Insurance Company. In a defined contributions plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees who have attained the age of 18 shall be eligible to participate in the plan. The plan requires the Village to contribute an amount equal to 7.5 percent of the employee's annual compensation each plan year. Employees are not required to contribute. All employees are immediately vested in the Village's contribution.

For fiscal year 2008, the Village's total contribution to the defined contribution plan was \$5,213, and the employee contributions were \$3,334.

NOTE I—ECONOMIC DEPENDENCY

The Village's General Fund has a significant economic dependence on a local corporation. During the year ended March 31, 2008, the corporation's billings for property taxes approximated 48 percent of total property taxes in the General Fund.

NOTE J—SUBSEQUENT EVENT

Subsequent to year end, the Village entered into a contract for \$24,475 for sidewalk improvements.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Rothbury
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 87,200	\$ 87,200	\$ 88,839	\$ 1,639
Licenses and permits	4,200	4,200	3,637	(563)
Intergovernmental revenues - State	30,000	30,000	32,194	2,194
Charges for services	36,600	36,600	33,053	(3,547)
Fines and forfeitures	1,500	1,500	718	(782)
Investment earnings	2,000	2,000	2,736	736
Other	2,000	2,000	794	(1,206)
Total revenues	163,500	163,500	161,971	(1,529)
EXPENDITURES				
Current				
General government				
Village Council	40,400	43,200	24,904	18,296
Elections	4,000	4,000	2,050	1,950
Clerk	10,340	10,340	9,153	1,187
Treasurer	11,040	11,040	9,848	1,192
Village hall	37,200	37,200	21,851	15,349
Unallocated	11,900	9,100	-	9,100
Public safety				
Police	58,600	58,600	49,339	9,261
Public works				
Street lighting	10,000	10,000	8,876	1,124
Roads	1,000	1,000	-	1,000
Community and economic development				
Planning	4,100	4,100	2,661	1,439
Culture and recreation				
Rothbury Community Center	26,300	26,300	9,883	16,417
Recreation	28,620	28,620	20,203	8,417
Total expenditures	243,500	243,500	158,768	84,732
Net change in fund balance	\$ (80,000)	\$ (80,000)	3,203	\$ 83,203
Fund balance at April 1, 2007			87,127	
Fund balance at March 31, 2008			\$ 90,330	

Village of Rothbury
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE

Major Streets Fund
For the year ended March 31, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - State	\$ 33,000	\$ 33,000	\$ 31,905	\$ (1,095)
Investment earnings	3,000	3,000	3,400	400
Total revenues	36,000	36,000	35,305	(695)
EXPENDITURES				
Current				
Public works				
Construction	50,000	50,000	38,879	11,121
Routine maintenance	67,500	67,500	19,000	48,500
Winter maintenance	15,000	15,000	3,248	11,752
Administration	2,000	2,000	1,988	12
Total expenditures	134,500	134,500	63,115	71,385
Excess of revenues over (under) expenditures	(98,500)	(98,500)	(27,810)	70,690
OTHER FINANCING USES				
Transfers out	(15,000)	(15,000)	(14,506)	494
Net change in fund balance	\$ (113,500)	\$ (113,500)	(42,316)	\$ 71,184
Fund balance at April 1, 2007			117,201	
Fund balance at March 31, 2008			\$ 74,885	

Village of Rothbury
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE

Local Streets Fund

For the year ended March 31, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - State	\$ 13,500	\$ 13,500	\$ 13,612	\$ 112
Investment earnings	4,000	4,000	5,799	1,799
Total revenues	17,500	17,500	19,411	1,911
EXPENDITURES				
Current				
Public works				
Construction	50,000	50,000	4,779	45,221
Routine maintenance	77,500	77,500	5,361	72,139
Winter maintenance	15,000	15,000	7,357	7,643
Administration	2,000	2,000	1,988	12
Total expenditures	144,500	144,500	19,485	125,015
Excess of revenues over (under) expenditures	(127,000)	(127,000)	(74)	126,926
OTHER FINANCING SOURCES				
Transfers in	15,000	15,000	14,506	(494)
Net change in fund balance	\$ (112,000)	\$ (112,000)	14,432	\$ 126,432
Fund balance at April 1, 2007			149,755	
Fund balance at March 31, 2008			\$ 164,187	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

July 10, 2008

Village Council
Village of Rothbury
Rothbury, Michigan

In planning and performing our audit of the governmental activities and each major fund of the Village of Rothbury as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Rothbury's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Rothbury's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Rothbury's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached a deficiency in internal control that we consider to be a significant deficiency.

This communication is intended solely for the information and use of management, the Village Council, others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

We consider the flowing item contained in our June 21, 2007 letter as still applicable:

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.